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CAP Reform Implementation in Denmark

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Report Highlights:

This report covers CAP reform implementation in Denmark. On January 1, 2005, Denmark decoupled more than 95 percent of its agricultural support. Partly coupled support continues for four product categories. CAP reform is expected to lead to a decline in crop production of less than 5 percent, but beef-cattle production is expected to decrease about 30 percent.

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Executive Summary

Denmark implemented the EU Common Agricultural Policy (CAP) reform effective January 1, 2005. The reform decouples more than 95 percent of the EU agricultural support to Denmark. All crop (except dried fodder), dairy and cattle (except 75% of male animal support and 50 % of ewe premiums) supports are decoupled and the amount of former coupled support will be paid as a per hectare support.

All traditional area support will be allocated evenly to all agricultural land with the same amount (Euro 310) per hectare, called Single Farm payment (SFP). Permanent grassland, which has not hitherto received any support, is also included into the SFP. It will initially be supported at a lower level (Euro 67) that increases to Euro 310 by 2012. Areas with sugar beets (not previously supported) will also receive SFP in addition to the (still artificially high) sugar prices. Allocation of SFP will be based on land farmed by April 21, 2005. The payment rights are payable to the farmers irrespective of whether they are cultivating the areas or not.

Each farmer's historic (2000-2002) dairy and cattle support (except 75 percent of the male animal premium) will be allocated evenly over his hectares on top the above-described SFP. Regulations for investments made later than 1999 will be compensated out of a national reserve of up to 3 percent of the total SFP.

Conditions for receipt of SFP are a set aside requirement of 8 percent of the area (for farmers cultivating more than 22 hectares) and compliance (called cross compliance) with 18 EU directives which include requirements concerning environment, animals and plant health and animal welfare. These requirements are being introduced over the years 2005 to 2007. Set aside areas are also receiving payments, equal to SFP.

Single Farm Payment rights (including set aside areas) are fully negotiable.

Development of rural districts is financed by a graduated reduction to the SFP (called modulation) of 3 percent in 2004, 4 percent in 2005 and 5 percent in subsequent years (to 2012).

Total support for Denmark will amount to about Euro 1 Billion; Euro 100 million more than past support. This increase is partial compensation for decreasing dairy prices.

The CAP reform is forecast to lead to a decline in crop production of less than 5 percent and beef cattle production is expected to decrease by about 30 percent. Planting seed production is forecast unchanged and dairy production to be determined by the milk quota. Pork production is not affected by the reform.

Introduction

1. The Reform

The EU Council, in September 2003, agreed on a reform of the Common Agricultural Policy (CAP). Accordingly, almost all direct payments, previously linked to production, will be decoupled and replaced by Single Farm Payments (SPF). EU member states are able to maintain a limited number of coupled subsidies. The main elements of the reform include:

- **Reductions in price supports** for individual commodities, including for milk (e.g. asymmetric reduction in dairy intervention prices of 22 percent)
- **Decoupling** of the majority of the direct support to farmers.
- Introduction of **cross compliance**
- Introduction of **modulation**

The move toward decoupling must be seen in the light of ongoing WTO negotiations, where the EU faces considerable pressure to reduce agricultural support or to reschedule support toward less production- and trade-distorting mechanisms.

For detailed background on the CAP reform, please see USEU report E34044. (<http://www.fas.usda.gov/scriptsw/attacherep/default.asp> - Choose Option 3. Search for E34044)

2. Mandatory Models

The Commission originally proposed two models for decoupling. The "Fischler Model" and the "Regional Model." Member states were able to select the format under which they would implement CAP reform.

The "Fischler Model" distributes support to individual farmers on the basis of actual support payments received during the reference period 2000 to 2002.

The "Regional Model" in its original form distributed all decoupled support via equal per hectare payments to all eligible farmers within a region (or country, as in the case of Denmark).

The "Hybrid Model" is a mix of the two and provides greater flexibility than the "Fischler Model." For instance:

- Part of the future budgeted subsidies finance the SFPs, while the remainder is distributed according to the "Fischler Model" as an additional support to the SFP.
- Differentiation in valuation of SFP Entitlements between crop areas and areas with permanent grassland.
- The "Hybrid Model" allows decoupling of dairy support from 2005 (opposed to 2007).
- Horticultural areas (including areas with potatoes not intended for starch production) may be supported (via the SFP).

The following EU(15) countries will implement the "Fischler Model" from 2005: Austria, Belgium, Ireland, Portugal, Italy, Scotland and Wales.

The following EU(15) countries are implementing the "Fischler Model" from 2006: France, Greece, The Netherlands, and Spain

The "Hybrid Model" (with certain variations) is being implemented:

In 2005 in Denmark, Luxembourg, Germany and England; in 2006 in Finland and in 2007 in Sweden.

3. Decoupling in Denmark

Although almost all direct, production-based, payments will be decoupled and replaced by Single Farm Payment (SFP), EU Member States are able to maintain coupling for some subsidies. The Danish Government implemented the reform as follows:

Product	Prior Support Mechanisms	Mandatory decoupling range	% of support to remain coupled in Dk.
Arable crops (Reform crops)	Per Hectare support Set aside support	75- 100%	0%
Protein crops a)	Area aid	0%	0%
Horticulture	0	100%	0%
Seeds	Production aid	0- 100%	0%
Sugar beets	Sugar regime	75- 100%	0%
Energy crops b)			
Dried Fodder	Process production payment	50% (Support to be reduced by 50%)	50%
Potato starch	Production aid	40%	60%
Beef and veal	Special Premium	100%	0%
	Steer premium	25- 100%	75%
	Suckling cow premium	0- 100%	0%
	Slaughter premium, cattle	60- 100%	0%
	Slaughter premium, calves	0- 100%	0%
	Extensification premiums	100%	0%
	Additional payments	100%	0%
Sheep and goats	Ewe premium, suppl. premium	50- 100%	50%
Dairy products	Dairy payments	100% before 2005	in 2005

a) Areas with protein crops will receive Euro 57.57 per hectare on top of SFP

b) Areas with energy crops will receive Euro 45 per hectare on top of SFP

4. Implementation

Details of implementation were generally agreed to by the farmers' union and the (traditionally farmer-friendly) government. Although a minority government, it was able to secure majority support for its reform proposal. Opposition proposals would have seen less compensation for direct support and more money spent on the environment. (The reform authorizes each country to reserve up to 10 percent of their budget for environment protection, environment improvements and/or marketing).

Future Subsidy Value:

The total amount of money available to Danish farmers in 2005 is calculated at Euro 944 million in 2005 and to Euro 996 million in subsequent years. This total is calculated based on subsidies during the reference period 2000 to 2002, including:

Yearly average per hectare support: Euro 660 million

Yearly milk production subsidies (compensation for decreased intervention prices): Euro 160 million

Yearly beef production support: Euro 130 million

Average support for planting seeds, potato starch and dehydrated grass: Euro 46 million

Of the 996 million Euros (in 2005), Euro 717 million will be used to fund the Basic Single Farm Payments. Additional Cattle and Dairy Payments (compensation for decreased intervention prices) amount to Euro 180 million (rising to 232 million) and coupled support will total Euro 47 million.

The table below shows the change in support amounts resulting from CAP reform. It should be noted that the increase of more than Euro 100 million only partially compensates for reduced dairy price supports (see below).

Producer's Support (FEOGA) Million Euro	1999	2000	2001	2002	2003	2004	2005	2006	2007
Area (per hectare) support	615	636	685	649	676	661	0	0	0
Planting seeds	33	34	29	32	28	30	0	0	0
Suckle cow premium*	15	17	19	21	21	17	0	0	0
Male animals premium*	23	30	38	47	47	52	33	33	33
Industrial potatoes (potato starch)	17	20	20	21	25	21	8	8	8
Dried fodder (Dehydrated grass)	15	11	10	11	9	8	5	5	5
Ewe Premium	2	2	1	1	2	2	1	1	1
Slaughter premium*	0	15	31	48	46	39	0	0	0
Compensation for dairy prices						53			
Basic Single Farm Payment							717	717	717
Additional Dairy and Cattle Payments							180	232	232
Total	720	765	834	830	855	883	944	996	996
Less modulation							-23	-32	-40
Total, after modulation	720	765	834	830	855	883	921	964	956
Rural District Support	51	51	51	51	51	51	51	51	51
+ 80 % of Modulation							18	26	32
Total rural District support	51	51	51	51	51	51	69	77	83

Note: This table includes all previously coupled payments in Denmark.

* Funds budgeted for these premiums will be partly be utilized for SFP and partly for Additional SFP for Cattle (see #2 below).

Single Farm Payments

1. Basic SFP for Arable and Grassland

The total budget for Basic Single Farm Payments is derived from decoupled agricultural support, including 27 percent of the total budget for the beef sector, 50 percent of the ewe premium and 40 percent of budgeted potato starch support.

Single Farm Payment entitlements are held by the individual farmer, and distributed as a per hectare support right. All farmers receive the same basic per hectare support entitlement. For 2005, the basic entitlement per hectare (excluding the additional farm payments; see 2 & 3 below) for Single Farm Payments is worth about Euro 310 for traditional cropland and about Euro 67 for permanent grassland. These per hectare support entitlements are negotiable but each must be registered to an area of one hectare.

The per hectare Single Farm Payment entitlements are allotted to individual farmers based on land for which they are eligible for support as per April 21, 2005. These rights cannot be changed over time (except for additional future payments tied to cattle & dairy support [see below]).

See Appendix 1 for an example.

2. Additional SFP for Cattle

Seventy-five percent of the steer premium will remain coupled in order to maintain steer and bull production in Denmark. Overall, the beef sector will contribute 27 percent of budgeted support to the Single Farm Payment pool. The balance (Euro 62 million) will be distributed as an additional cattle farm payment, calculated according to farmers' individual support history. This amount is to be added evenly over that farmer's SFP entitlements as a cattle supplement.

3. Additional SFP for Dairy

Similarly, additional dairy supplements will be paid as partial compensation for dairy price reductions (reductions of 22 percent on dairy intervention prices). These payments will equal Euro 11.81 per ton of milk quota (during the reference period 2000-2002) in 2004, Euro 23.65 in 2005 and Euro 35.5 in 2006 and onwards. This payment will be distributed evenly over a farmer's Single Farm Payment Entitlements.

The cattle and dairy farm supplementary payment entitlements will be distributed in addition to the Single Farm Payments for arable and grassland. However, there is a ceiling of the total amount of payments per hectare of Euro 5,000 (for 2005).

See Appendix 2 for an example.

4. Set aside rights/obligations.

Farmers cultivating more than 22 hectares (in addition to areas with permanent grass) will have to set aside 8 percent of their land. For this land there is separate payment entitlement, called a Detached Payment Entitlement of Euro 301 per hectare. These rights are also negotiable, and in principle you could have farmers in a part of Denmark with poor soils and low crop yields exchanging their Single Farm Payments entitlements with other farmers' for their Detached Payment Entitlements. These set aside areas may be cultivated with non-food crops.

Corrections to the Model

In the autumn of 2004, there was public scandal due to the fact that cattle farmers could receive additional farm payment (and even be inherited) in perpetuity, irrespective of whether they actually raised cattle, so long as they kept a few hectares of land. Single Farm Payment Entitlements were therefore amended so that the additional cattle payments will be reduced by 9 percent per year from 2009 to 2012. During the same period, support for grassland will be increased to an amount equal to payments for cropland. As a result, owners of grassland (e.g. for riding horses) will receive relatively large support payments, although they have never before have been supported.

There has been a similar public uproar and Parliamentary opposition to the fact that sugar beet growers, in addition to enjoying artificially high sugar prices, will also receive Basic Single Farm Payment entitlements. Hitherto, sugar beet growers have not been paid per hectare support. The Parliament and the Minister for Food, Agriculture and Fisheries, tried to formulate amendments to the regulations which would circumvent this double payment, but have been unable to find a solution acceptable to the EU Commission.

National Reserve

The reform authorizes member states to establish a national reserve for allocation of Single Farm Payments under specific circumstances. These are financed by a reduction by up to 3 percent of Basic SFP funding.

In Denmark, the national reserve will be used to compensate cattle farmers who have invested during the reference period (2000 to 2002) or later. This includes farmers who have either bought farms with beef production or invested in expansion of their beef production. Payment rights are reserved to farmers who have invested prior to September 29, 2003 (the day before the CAP Reform Regulation).

In addition, payment entitlements are intended for farmers who have rented their land (or part of their land) on long-term contracts. (Note: SFP are allocated to those who are actually cultivating the land on April 21, 2005, not those who own the land).

Areas with permanent crops, later converted to arable land, might also be considered for payment under the national reserve.

Modulation

In a process referred to as "Modulation", parts of the Basic Single Farm Payments will be transferred to a fund for development of rural areas. In 2005 payments will be reduced by 3 percent, in 2006 by 4 percent and in 2007 and onwards until 2012 by 5 percent. However, modulation assessments on the first Euro 5,000 per farm(er) will be reimbursed (called extra support). E.g. if a farmer is paid Euro 5,000 or more in support (in 2005), three percent of those payments will be withheld and Euro 150 will then be reimbursed. A minimum of 80 percent of modulation proceeds will be transferred to rural support within the member country.

Cross Compliance

As a recipient of direct support, the farmer is required to adhere to requirements based on 18 EU directives. These include requirements concerning environment, animal and plant health and animal welfare. In addition, member countries have to ensure that agricultural areas, especially areas not under active cultivation, are kept in orderly agricultural and environmental conditions. This precludes conversion to forestry or planting of e.g. Christmas or fruit trees. Furthermore, member countries are to ensure that areas which were permanent grassland areas in April 2003, continue as permanent grassland.

Yearly verification of compliance has to exceed one percent of all farms. If the requirements are not fulfilled, farmers will suffer a reduction in their payments. For inadvertent violations, the support will be reduced by 10 to 20 percent. In cases where the violations are intentional, reductions must be a minimum of 30 percent and may result in discontinuation of payments for several years.

Excess of Payment Rights

Through the last decade, the agricultural area in Denmark has decreased by an average of 11,000 hectares per year. This means that from day one there will be an excess of payment rights (rights not tied to the required one hectare) and some payment rights that provide the lowest support (Euro 67 for grassland) will not be redeemed. Farmers should, in theory, transfer full payment entitlements to replace the Euro 67/ha entitlements. In 2002 there were 178,000 hectares permanent grass, for which an entitlement worth Euro 67 each will be disbursed. However, cattle farmers own most of these hectares and the additional cattle payment entitlements will be added to these entitlements. Farmers, though, will try to keep the additional cattle and dairy payment entitlements from being linked to these lower-value entitlements, and it is estimated that only 75,000 hectares will receive the Euro 67 payment entitlements.

Payment rights, which have not been utilized at least once year during the period 2005-2008 will be withdrawn and form part of the National Reserve.

Reform Consequences for Danish Agricultural

Summary

Overall, no great changes in farm production are foreseen, with the exception of beef production, which is forecast to decrease by almost 25 percent during the next 5 years.

Dairy production is forecast unchanged under the assumption that the milk quota will continue to be filled. As seen in example 2 below, milk producers will suffer great losses from dairy price reductions, for which they are only partly compensated and many farmers will have to undertake large-scale rationalization in order to survive.

Planting seeds

Planting seeds are fully decoupled. Producers of some seeds (e.g. vegetable seeds), which did not previously receive any support, will now receive Single Farm Payment entitlements. For the majority of Danish planting seeds (grass seeds), previous support was differentiated by seed variety. Production of some seeds will now become more profitable. Longer-term market dynamics favor increased production of most grass seeds, and area is expected to increase.

Cereal crops

It could be expected that some farmers will be satisfied with the Single Farm Payments and will not bother with the trouble and expenditure of farming. However, as the negotiability and transferability of payment rights for set-aside areas might distribute set-asides to such farms, impact on the cereal production area is expected to be minimal. Of the cultivated area of 2.7 million hectares (2004), an additional 100,000 hectares are expected to be set-aside.

Milk production

No change in the amount of milk production is foreseen. The present trend towards larger dairy farms with higher yields is expected to continue. This rationalization is expected to ensure that dairy farmers can produce milk with a profit and fulfill the Danish milk quota, even with a decrease in milk prices of up to 20 percent.

Cattle production

While there is consensus that cattle production will decline, uncertainty exists with respect to the size of that decrease. With a continued yearly increase in milk yields of about three percent, and a fixed quota, dairy cow slaughter will continue to decrease.

Much greater uncertainty exists with regard to future production of steers and suckling cows. Although the continued 75 percent coupling of the steer premium is intended to maintain present production levels, some decrease is foreseen. The number of suckling cows is expected to decrease over the next 10 years from 130,000 to 90,000. Beef and veal production from male animals is now approximately equal to beef production from dairy cows (about 60,000 tons annually for each). Total beef and veal production (including dairy cow meat) is expected to fall by about thirty percent over the coming decade.

Examples

Appendix 1.

Example. Typical pork producer with ordinary cultivated fields. (Note: As pork production has not been supported in the past and is not included in the reform, this example would also apply to a similar farm without pork production. For this exercise it does not matter whether the land is rented or owned by the farmer, but pig producers usually rent additional land for manure disposal.)

Table 1

Farm facts

Area (hectares in 2003)	Owned	Rented	Total
Rotation (per hectare support)	25.4	85.9	111.3
Rotation (other crops)	25.0	5.0	30.0
Set aside	5.6	10.1	15.7
Total	56.0	101.0	157.0

The farmer is allocated 158 payment entitlements (see table 2). Payment rights for set aside area are valued at Euro 310 both in 2005 and 2006.

As the farmers' total area is 157 hectares, two of his payment rights do not have "full value". E.g., only 144 of his 145 rotation area entitlements have a full value of Euro 310. The last of these entitlements has a value of 44 percent of Euro 310, corresponding to 0.44 hectares. (See table 2).

Table2

Payment Rights (PR)	Hectares	PR (No)	Unit value	Value of PR
-----Euro per Hectare-----				
Rotation area	144.44	145	310	310
Set aside (8%)	12.56	13	310	310
Total	157.00	158		

Table 3. EU support in 2005 – 2008

	Area -Ha- 2005-08	Unit value 2005	Total	Total 2006	Total 2007-08
-----Euro-----					
Rotation	144.44	310	44,776	44,776	44,776
Set aside	12.56	310	3,894	3,894	3,894
Total	157.00		48,670	48,670	48,670
Less modulation 1)			1,460	1,946	2,434
Plus extra payments (Refund of modulation)			150	200	250
Total Support			47,360	46,924	46,486

1) Modulation is 3 % in 2005, 4 % in 2006 and 5% in 2007-2012

Total hectare support in 2003 is calculated to Euro 40,646. The difference between the reform and the pre-reform support can thus be calculated at Euro 5,840 for 2007.

Appendix 2.

Example. Typical larger dairy farm without calf production

Table 1

Farm facts

Area (hectares in 2003)	Owned	Rented	Total
Rotation (per hectare support)	228.8	42.5	271.4
Rotation (other crops)	30.0	13.3	43.3
Permanent grass	16.1	20.0	36.1
Set aside	18.8	10.0	28.8
Energy crop (willow)	3.1	0.0	3.1
Total	296.8	85.8	382.6

Number of Dairy cows	400
Additional cattle payments (2005)	Euro 9,713
Milk quota March 31, 2005	2,758,320 kilo
Dairy payments, 2005	Euro 39,675
Dairy Payments, 2006	Euro 71,650

The dairy farmer is allocated 384 payment entitlements (see table 2). As seen in the table, the value of the payment entitlements are calculated by distributing the cattle and dairy payments equally over the production area and are in addition to the value of the basic single farm payment entitlements.

As the dairy farmer's total area is 382.6 hectares, three of his payment rights do not have "full value". E.g. 318 of his 319 rotation area rights have a full value of Euro 446.10 in 2005. The last of these rights has a value of 78 percent of Euro 446.1, corresponding to 0.78 hectares.

Table2

Payment Rights (PR)	Hectares	PR (No)	Basic Value	Cattle Paym.	Dairy Value Paym. of PR 2005 2005	Dairy Paym 2006	Value of PR 2006
-----Euro per Hectare-----							
Rotation area incl. willow	318.78	319	310	27.3	109.8	446.1	201.9 539.2
Set aside	27.72	28	310	0	0	310	0 310
Permanent grass	36.10	37	67	27.3	109.8	204.1	201.9 296.2
Total	382.60	384					

Table 3. EU support in 2005 – 2008

	Area -Ha-	Unit value 2005	Total 2005	Unit value 2006	Total 2006	Unit value 2007-08	Total 2007-08
-----Euro-----							
Rotation	318.78	446.1	142,208	539.2	171,886	539.2	171,886
Set aside	27.72	310	8,593	310	8,593	310	8,593
Permanent grass	36.10	204.1	7,368	296.2	10,693	296.2	10,693
Total	382.60		158,169		191,172		191,172

Less modulation 1)	4,745	7,647	9,559
Plus extra payments	150	200	250
Total Support	153,574	183,725	181,863

1) Modulation is 3 % in 2005, 4 % in 2006 and 5% in 2007-2012

Total support in 2003 is calculated to Euro 117,093 of which per hectare support is Euro 103,419 and cattle premiums total Euro 13,674. The difference in the support received by this particular farm arises partly from the fact that due to the reform, grassland areas are now supported. Moreover, this farm (in 2006) will receive Euro 71,650 in additional dairy payments, distributed evenly among the SFP entitlements. This additional dairy payment is partial compensation for reduction in milk price supports (at farm gate). With no change in production, price decreases would lead to a decline in income of about Euro 135,000.

The difference between the reform and the pre-reform support can be calculated for 2007 as:

	Reform	Pre-reform
		-----Euro-----
Total support	181,863	117,093
Higher milk prices		135,000
Total	181,853	252,093